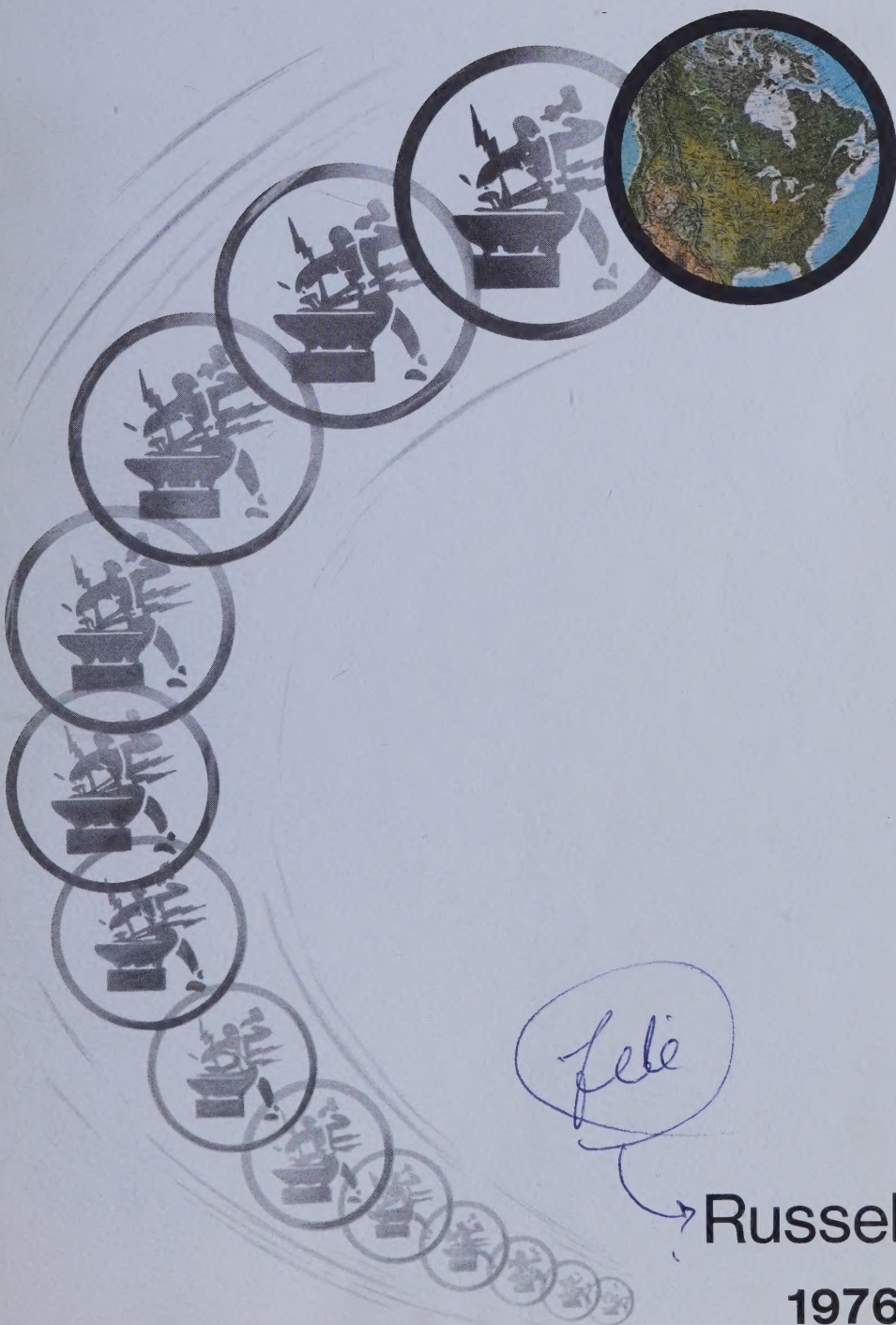


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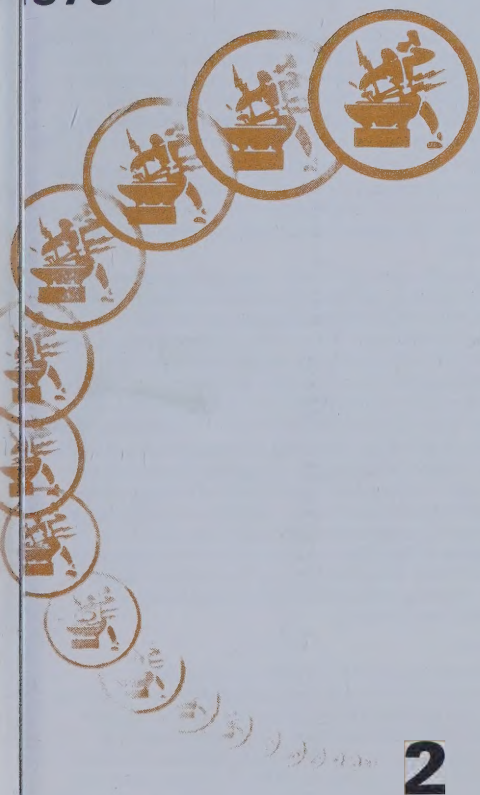
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→ Russel, Hugh, Ltd  
1976



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**INTERIM REPORT  
TO SHAREHOLDERS  
SECOND QUARTER  
1976**



**2**

**HUGH RUSSEL  
LIMITED**

# **HUGH RUSSEL LIMITED INTERIM REPORT TO SHAREHOLDERS SECOND QUARTER 1976**

## **Review of Operating Results**

As indicated in the Interim Report for the First Quarter, results for the three months ended June 30, 1976 showed strong gains over the previous quarter in both sales and earnings, despite a difficult market environment and the low level of business confidence brought about by government economic policies.

Consolidated sales for the second quarter were \$73,660,000, compared to \$47,763,000 for the same period in 1975 and \$56,457,000 in the first quarter of this year. Consolidated net earnings for the three-month period were \$1,214,000, or 46 cents per common share, compared to 32 cents in the same period last year and 21 cents in the first quarter of 1976.

Although there seems to be little prospect for improvement in the general business climate in Canada in the coming months, the company anticipates that results for the full year will show increases in both sales and earnings over 1975 results.

A highlight of the second quarter was the purchase of the TEK Bearing Company, Inc., a power transmission distribution specialist based in Stratford, Connecticut. Copies of the detailed information on TEK sent to all shareholders in July are available upon request. We are pleased to announce that this transaction has now been completed and TEK has become a wholly-owned subsidiary company of Russel. Results of TEK will be included with the Third Quarter Report.

A meeting of all holders of Russel debentures has been called for August 25th for the purpose of making changes to the Trust Deeds. The proposed changes are of a house-keeping nature, designed to bring Russel debentures more into line with current trust deed practices and, at the same time, reduce some of the expenses associated with the company's capital financing activities. None of the routine changes proposed has any implications for the security of the shareholder's investment.

## **Dividends**

Effective with the quarterly dividend payment due September 15, 1976, the annual dividend will be increased from the current rate of 52 cents per common share to 64 cents. The September quarterly dividend payment will therefore be in the amount of 16 cents per share instead of the previous 13 cents per share. This change is consistent with the Russel policy of increasing the dividend in line with longer term earnings trends and reflects the continuing improvement recorded in the company's basic earnings.

A. D. Russel  
Chairman &  
Chief Executive Officer

J. P. Foster  
President

Toronto  
August 19, 1976

# HUGH RUSSEL LIMITED AND SUBSIDIARY COMPANIES

## CONSOLIDATED INCOME STATEMENT (unaudited)

	Three months ended June 30		Six months ended June 30	
	1976	1975	1976	1975
	(000's)		(000's)	
Net sales.....	\$73,660	\$47,763	\$130,117	\$95,851
Earnings from operations before deducting the following:.....	4,828	2,682	8,184	6,552
Depreciation.....	484	375	954	735
Interest on short term debt.....	1,307	255	2,285	828
Interest on long term debt.....	671	449	1,365	696
Earnings before Income Tax.....	2,366	1,603	3,580	4,293
Provision for Income Tax.....	1,152	777	1,825	2,044
Net earnings.....	\$ 1,214	\$ 826	\$ 1,755	\$ 2,249
Earnings per Share — Fully Diluted.....	\$ .46	\$ .32	\$ .67	\$ .87
Number of Shares — Fully Diluted.....	2,605	2,595	2,605	2,595

# HUGH RUSSEL LIMITED AND SUBSIDIARY COMPANIES

## Consolidated Statement of Changes in Financial Position

For the Six Months Ended June 30

	1976	1975
	(000's)	
Funds were obtained from:		
Operations — net earnings for the period . . . . .	\$1,755	\$ 2,249
— expenses not requiring a current cash outlay:		
depreciation . . . . .	954	735
deferred income taxes	(48)	(42)
amortization of premium on acquisition . . . . .	28	—
	<u>2,689</u>	<u>2,942</u>
Employees share purchase plan . . . . .	27	21
Proceeds from sales of fixed assets . . . . .	12	9
Other long term debt . . . . .	—	299
Issue of series D debentures . . . . .	—	10,000
Increase in contractual obligations . . . . .	1,180	—
Sundry . . . . .	201	10
	<u>4,109</u>	<u>13,281</u>
Funds were applied to:		
Purchase shares of subsidiary . . . . .	3,352	761
Less working capital acquired . . . . .	2,386	734
Balance . . . . .	966	27
Additions to facilities . . . . .	1,493	1,088
Pay dividends on common shares . . . . .	677	628
Pay dividends on preferred shares . . . . .	—	5
Retire debentures . . . . .	781	104
Retire other long term debt . . . . .	359	86
Invest in other businesses . . . . .	—	107
Increase loan to trustee . . . . .	293	—
Repay contractual obligations . . . . .	1,274	—
	<u>\$5,843</u>	<u>\$ 2,045</u>
Increase in working capital . . . . .	<u>(\$1,734)</u>	<u>\$11,236</u>

# HUGH RUSSEL LIMITED ET SES FILIALES

Etat Consolidé de l'évolution  
de la Situation Financière

Pour les Six Mois Terminés le 30 juin

	1976	1975
	(000's)	
Provenance des fonds:		
Exploitation — bénéfice net de la	\$1,755	\$ 2,249
periode.....		
— frais n'entraînant pas		
de sortie courante		
de fonds:		
amortissement.....	954	735
impôts sur le revenu		
reportés.....	(48)	(42)
amortissement des		
primes lors	28	—
d'acquisitions.....	2,689	2,942
Plan d'achat d'actions des employés	27	21
Dispositions d'immobilisations.....	12	9
Autres dettes à long terme.....	—	299
Emission de débentures — série D...	—	10,000
Augmentation d'obligations	1,180	—
contractuelles.....	291	10
Divers.....	4,109	13,281
Utilisation des fonds:		
Achat d'actions de filiales.....	3,352	761
Moins fond de roulement acquis.....	2,386	734
Solde.....	966	27
Additions aux immobilisations.....	1,493	1,088
Paielement de dividendes sur		
actions ordinaires.....	677	628
Paielement de dividendes sur		
actions privilégiées.....	—	5
Réduction de débentures.....	781	104
Réduction d'autres dettes à long		
terme.....	359	86
Placement dans d'autres entreprises.	—	107
Augmentation du prêt		
du fiduciaire.....	293	—
Réduction d'obligations		
contractuelles.....	1,274	—
Augmentation du fonds de roulement..	(\$1,734)	\$11,236
	\$5,843	\$ 2,045

# HUGH RUSSEL LIMITED ET SES FILIALES

## ÉTAT CONSOLIDÉ DES BÉNÉFICES (avant vérification)

	Trimestre Terminé le 30 juin		Six Mois Terminé le 30 juin	
	1976	1975	1976	1975
	(000's)		(000's)	
Ventes.....	\$73,660	\$47,763	\$130,117	\$96,851
Bénéfice avant les postes suivants.....	4,828	2,682	8,184	6,552
Amortissement.....	484	375	954	735
Intérêts sur la dette à court terme.....	1,307	255	2,285	828
Intérêts sur la dette à long terme.....	671	449	1,365	696
Bénéfice avant impôts sur le revenu.....	2,366	1,603	3,580	4,293
Impôts sur le revenu.....	1,152	777	1,825	2,044
Bénéfice net.....	\$ 1,214	\$ 826	\$ 1,755	\$ 2,249
Bénéfice net dilué par action.....	\$ .46	\$ .32	\$ .67	\$ .87
Nombre d'actions — dilué.....	2,605	2,595	2,605	2,595

# HUGH RUSSEL LIMITED RAPPORT INTÉRIEURE AUX ACTIONNAIRES DEUXIÈME TRIMESTRE 1976

## Compte rendu des opérations

Comme on l'a prévu dans le rapport intérimaire du premier trimestre, les ventes et les bénéfices pour les trois mois s'étant terminés le 30 juin 1976 ont montré un accroissement substantiel par rapport au trimestre précédent, en dépit d'un marché difficile et d'un certain manque de confiance dans le monde des affaires créé par les politiques économiques gouvernementales.

Les ventes consolidées pendant le deuxième trimestre ont atteint \$73,660 000 contre \$47,763,000 pour la même période en 1975 et \$56,457,000 pour le premier trimestre de cette année. Les bénéfices nets consolidés pour le deuxième trimestre ont atteint \$1,214,000, soit 46 cents par action ordinaire contre 32 cents pendant la même période de l'année dernière et 21 cents pour le premier trimestre 1976. Bien que l'on ne puisse pas s'attendre à une amélioration sensible du climat commercial général au Canada pendant les mois à venir, la compagnie toutefois prévoit que les résultats pour toute l'année 1976 seront en augmentation tant dans les ventes que dans les bénéfices par rapport aux résultats de 1975.

L'un des faits saillants du deuxième trimestre a été l'achat de TEK Bearing Company, Inc., compagnie spécialisée dans la distribution d'éléments de transmission et ayant son siège social à Stratford, Connecticut. Les renseignements détaillés sur la compagnie TEK, qui ont été envoyés à tous les actionnaires en juillet, sont encore disponibles sur demande. Nous avons le plaisir d'annoncer que cette transaction est maintenant terminée et que TEK est devenue une filiale possédée en propriété exclusive par Russel. Les résultats de la compagnie TEK seront inclus dans le rapport du troisième trimestre.

Une réunion de tous les détenteurs de débentures Russel a été convoquée pour le 25 août en vue d'apporter des modifications aux actes de fiducie. Les amendements proposés, de nature d'administration interne, ont pour but d'adapter les débentures Russel aux pratiques courantes régissant les actes de fiducie, et en même temps, de réduire certaines dépenses relatives aux activités de financement d'immobilisations de la compagnie. Aucun des amendements de routine proposés, n'affecte la sécurité de l'investissement des actionnaires.

## Dividendes

Le dividende annuel passera du taux actuel de 52 cents par action ordinaire à 64 cents dès le paiement du dividende trimestriel échéant au 15 septembre 1976. En conséquence, le paiement du dividende trimestriel de septembre sera du montant de 16 cents par action au lieu des 13 cents antérieurs, par action. Ce changement est conforme à la politique de Russel d'augmenter le dividende selon les tendances des gains à plus long terme et reflète l'amélioration continue des bénéfices de base enregistrés par la compagnie.

Toronto, le 19 août 1976

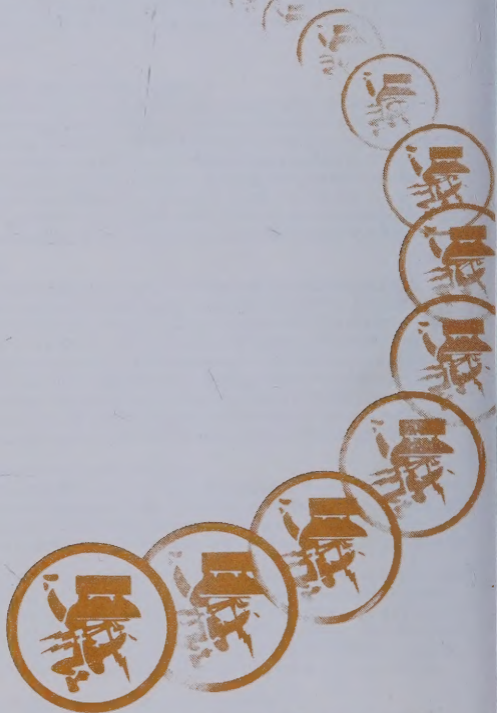
Conseil d'administration

Président du

A. D. Russel

J. P. Foster  
Président

**RAPPORT INTÉRIEURE  
AUX ACTIONNAIRES  
POUR LE DEUXIÈME  
TRIMESTRE 1976**



**2**

**HUGH RUSSEL  
LIMITED**

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**Cover:**

The cover illustration symbolizes the growth of Hugh Russel Limited beyond Canada into the United States and the potential for broadened North American scale operations.

*Vous pouvez obtenir un rapport en français sur demande*

## Highlights

	1976	1975
Net Sales	<b>\$289,164,000</b>	\$199,298,000
Net Earnings	<b>\$ 2,287,000</b>	\$ 4,754,000
Earnings Per Share Fully diluted	<b>\$0.88</b>	\$1.83
Cash Flow Per Share Fully diluted	<b>\$1.35</b>	\$2.61
Capital Employed at Year-end	<b>\$ 69,642,000</b>	\$ 69,689,000
Earnings to Average Capital Employed	<b>2.7 per cent</b>	7.8 per cent
Capital Expenditures	<b>\$ 4,331,000</b>	\$ 2,107,000
Total Common Shareholders	<b>2,372</b>	2,481
Shares Held by Canadian Residents	<b>99 per cent</b>	99 per cent
Total Dividends Paid	<b>\$ 1,509,000</b>	\$ 1,306,000

# Letter to Shareholders

*The extent to which a business enterprise contributes to economic life is determined by the manner in which it is able to sense the needs of the marketplace and organize itself to fulfill these needs.*

Hugh Russel Limited long ago recognized the need for a comprehensive and efficient system of distribution, capable of purchasing materials and products in bulk from manufacturers and, in turn, supplying these to consuming industry at the right time, in the right quantities, in the right form and at the right price. Hugh Russel's principal business activities are centred on providing this essential supply function to industry.

Over the past ten years, we have pursued a course of expanding the operating base of our distribution business in order to develop a more balanced range of activities in terms of both products and markets, thus lessening our dependence on any one product or geographic area. Of course, we still are and will be influenced over any short term period by the pace and temper of the economies we serve. In this regard, commercial and industrial activity in the past year has been sluggish and uneven and, as a consequence, our distribution operations, which comprise more than 95 per cent of our total business, produced results at the low end of the range of performance within which we expect to work.

Industrial distribution is a high volume, low margin business. The experienced and diversified distributor who buys effectively, manages his inventory efficiently and fine-tunes his costs, would anticipate a net profit to sales return of between 1.0 and 2.5 per cent. In 1976, Russel's net profits from distribution were in the order of 1.1 per cent of sales.

These results are particularly encouraging in light of the extremely competitive conditions prevailing throughout the year and the disruptive effect of prolonged labour disputes in Canadian industry which significantly reduced the profit contribution of a number of important operating units. A further factor influencing 1976 results was the one-time but significant re-location expense associated with the start-up of four new regional distribution facilities.

The distribution businesses performed well under a variety of difficult conditions, demonstrating the corporation's ability to give a good account of itself in a highly competitive market environment.

Overall corporate results, however, were disappointing due largely to an unanticipated fourth quarter loss in the Engi-

neering and Manufacturing Division. Curtailed capital spending in the electrical wire and cable industry dried up orders for equipment regularly produced by this division. Consequently, production was largely devoted to contracts involving product development work, where cost over-runs had an undue effect on the division's results. Further, the division encountered a severe set back in its Brazilian operations.

Steps have been taken to correct this situation.

During the year, the Company expanded its U.S. distribution operations significantly through the purchase of TEK Bearing Company, one of the ten largest bearing and power transmission distributors in North America.

Two other investments made in 1976, the purchase of Walter Woods Limited of Winnipeg, and Guy Chenevert Limited of Ottawa, represent expansion in the plumbing and heating, hardware and building materials product lines. Through this kind of investment, the Home Products Distribution Division has grown from a small initial base some five years ago, to sales of \$132 million in 1976 and is close to reaching its objective in developing a comprehensive Canadian distribution chain.

The essential work of developing people and organization has progressed well during the past year. All divisions made significant moves to strengthen and streamline their management organizations in response to growth and increased competition. In this connection, we welcome the management teams who have joined us from Walter Woods, Guy Chenevert and TEK. We look forward to the growing contribution these people will make to our affairs in the years ahead.

Late last year we decided to strengthen our financial position by issuing \$10 million in preferred shares. With the immediate economic future uncertain it seemed prudent to provide the Company with the financial resources to meet the difficulties and investment opportunities which such times usually bring.

We believe the industrial distribution industry in North America is one of unique and considerable opportunity. Moreover, on the basis of the Company's performance in a difficult and uncertain economic environment, we believe we have the people, facilities and financial resources to make worthwhile progress in our chosen field in the coming years.

Toronto, April 5, 1977



J. P. FOSTER  
President



A. D. RUSSEL  
Chairman and  
Chief Executive Officer



# Performance Review

## Sales

The Company recorded the highest level of sales in its history during 1976. Consolidated net sales of \$289.2 million for the 12 months ended December 31, 1976, were up by 45 per cent from the \$199.3 million reported for 1975.

During 1976, intense competition was encountered in all areas of our business. By maintaining or slightly increasing sales volume, however, the respective operating divisions were generally successful in improving their market positions. Sales originating from distribution activities increased by 51 per cent over 1975, reflecting the impact of new acquisitions during the year and the sales gains achieved by almost all distribution units.

Sales from the non-distribution activities of the Engineering and Manufacturing Division were down at \$10.3 million due to the decline in North American demand for wire and cable machinery. *Went down?*

The trend toward a more balanced range of activity across the company's diversified distribution groupings was continued in 1976. As Table I and Chart 1 illustrate, dramatic changes have taken place in this regard over the past several years. It should be noted that changes in the relative importance of the respective divisions have been accomplished against a background of equally dramatic sales growth in absolute terms.

A significant development in 1976 was the increase in the portion of total sales from the Power Transmission Distribution Division. With its expansion into the United States, this Division is expected to account for a growing sales volume in the future years.

Chart 2 illustrates the relationship between total sales and the sales of newly acquired businesses. The chart underlines the dual nature of the Russel continuing expansion program, i.e., equal priorities being attached to internally generated

and acquired expansion. In the buoyant market of 1974, for example, sales gains came largely from internal expansion. In contrast, in the slower economic conditions of 1975-76, there were greater opportunities to increase business through investment in new companies and, accordingly, purchased sales increased in relative importance during that period. Sales by year and by quarter are provided in the tables below. The abnormal and potentially non-recurring demand for steel products in 1974 is clearly evident in this flow. Sales in 1976 are closer to the expected longer term growth trend.

Table I Sales by Operating Division (\$000's)					
Division	1976	1975	1974	1973	1972
Distribution Operations:					
Metals	114,054	109,645	200,446	96,468	72,863
Home Products	131,689	61,564	36,307	20,383	15,540
Power Transmission	33,090	13,757	12,435	9,626	8,085
Total Distribution	278,833	184,966	249,188	126,477	96,488
Engineering and Manufacturing	10,331	14,332	13,612	3,914	2,618
TOTAL	289,164	199,298	262,800	130,391	99,106

Table II Sales by Quarter (\$000's)					
Quarter	1976	1975	1974	1973	1972
First	56,457	48,088	54,235	25,584	19,077
Second	73,660	47,763	66,723	33,817	25,050
Third	81,514	43,139	67,748	34,406	27,187
Fourth	77,533	60,308	74,094	36,584	27,792
TOTAL	289,164	199,298	262,800	130,391	99,106

Chart 1

SALES BY PRODUCT AREA  
(Percent of total)

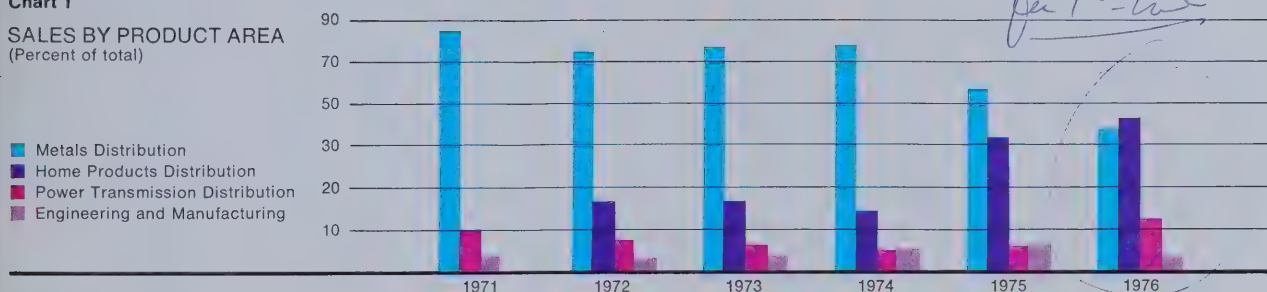
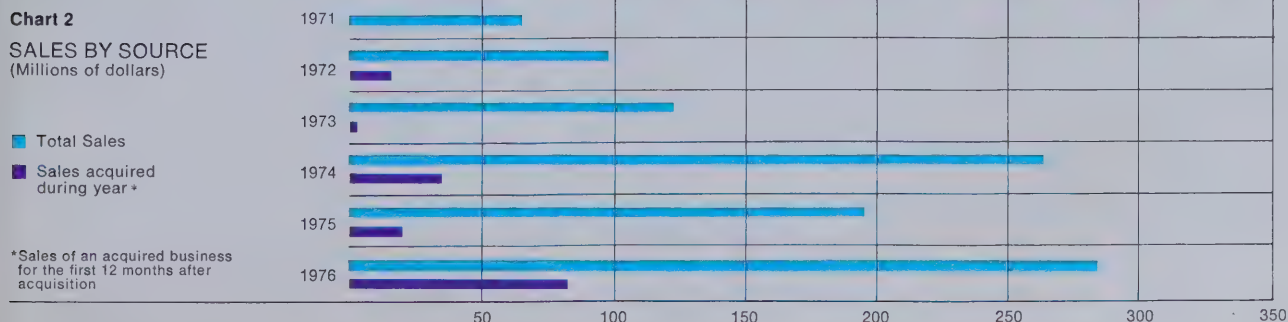


Chart 2

SALES BY SOURCE  
(Millions of dollars)



## Earnings

Consolidated net earnings for the year amounted to \$2.3 million, compared to \$4.8 million in 1975. On a fully diluted basis, earnings per common share were 88 cents, compared to \$1.83 in the previous year.

The Company's distribution operations produced net earnings of approximately \$3.2 million, or \$1.22 per share, which was offset by a net loss of some \$913,000, or 34 cents per share, suffered by the Engineering and Manufacturing Division.

The principal factor bearing on the Company's distribution activities was the persistent weakness in Canadian markets, particularly during the second half of the year. A combination of an unusually competitive situation in steel supply, reduced capital spending and strikes in producing and consuming industries — most notably, a province-wide strike in the Quebec construction industry which affected the greater part of the last two quarters — significantly limited the profit potential of the Home Products Division and the Metals Division, the two largest distribution groupings. Added factors for the Home Products Division were the substantial re-location expenses incurred in building and transferring operations to a major new facility in Moncton and the continued costs of developing new markets in the Montreal Region. The move by Metals Division into its recently constructed plant in Regina, and the phasing-in of the Power Transmission Division's new central warehouse in Toronto resulted in similar re-location costs.

Table III and Chart 3 show the trend toward a more balanced earnings pattern in the Company's distribution operations. The impact of virtually unprecedented market swings on earnings performance is illustrated in Table IV and Chart 4. The last four years have produced extreme earnings fluctuations beyond any normal expectations of the distribution business. Under more normal market conditions, the distribution business could be expected to produce performance measures approximating those for 1972. (Chart 4)

**Table III** Operating Profits by Division (per cent of total)

Division	1976	1975	1974	1973	1972
Distribution Operations:					
Metals	64.0	66.0	90.6	82.8	66.4
Home Products	31.7	25.2	6.1	10.2	18.6
Power Transmission	22.5	9.4	2.6	4.1	8.2
Other Operations:					
Engineering and Manufacturing	(18.2)	(0.6)	0.7	2.9	6.8
TOTAL	100.0	100.0	100.0	100.0	100.0

**Table IV** Earnings per Common Share (Fully-Diluted)

Quarter	1976	1975	1974	1973	1972
First	\$ .21	.55	1.61	.27	.16
Second	.46	.32	1.97	.58	.28
Third	.26	.43	1.57	.67	.34
Fourth	(.05)	.53	.90	.83	.39
TOTAL	\$ 0.88	1.83	6.05	2.35	1.17

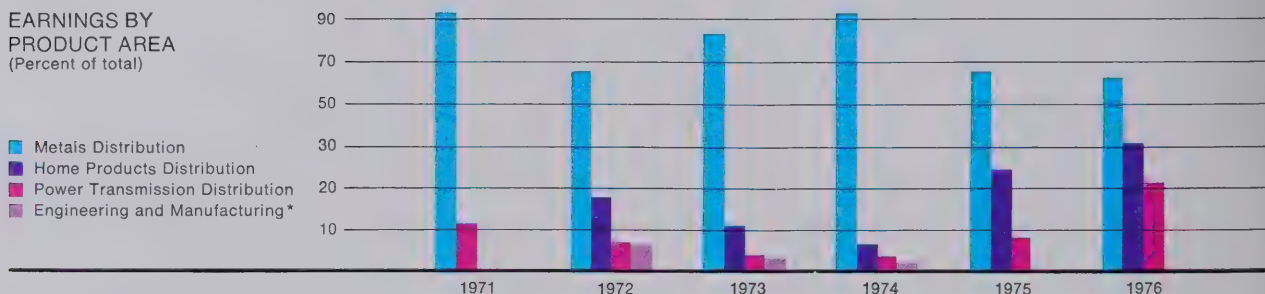
## Financial Position

The Company continues to be in a sound and liquid financial position, as illustrated in Charts 5 - 6. Total assets at year-end were \$165 million, an increase of 20 per cent over the \$137 million in assets at the end of 1975. Shareholders' equity also increased, from \$41.3 in 1975 to \$42.1 at the end of 1976. The ratio of shareholders' equity to long-term debt at year-end was 2:1, virtually unchanged from the previous year.

Cash flow in 1976 was \$3.5 million, or \$1.35 per common share, compared to \$6.8 million, or \$2.61 per share in the

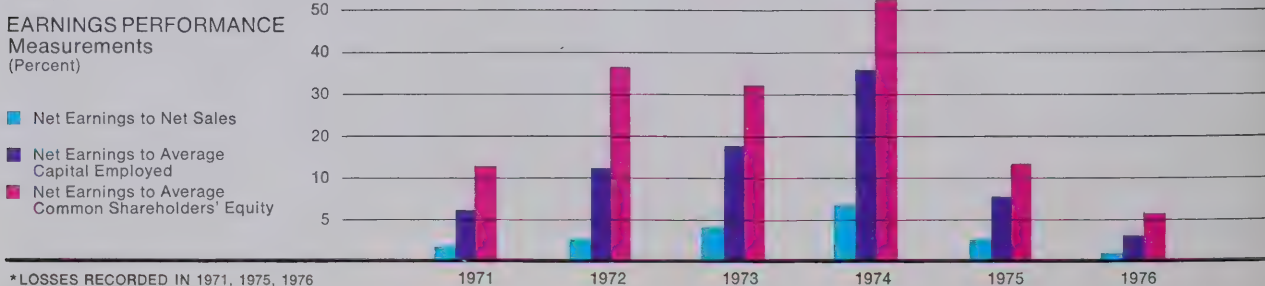
**Chart 3**

**EARNINGS BY PRODUCT AREA**  
(Percent of total)



**Chart 4**

**EARNINGS PERFORMANCE Measurements**  
(Percent)



\*LOSSES RECORDED IN 1971, 1975, 1976

previous year. As a result of investments made in 1976, working capital at year-end of \$31 million was down from the \$37 million reported at the end of 1975. The Company has bank lines of credit of over \$80 million, of which some 23 per cent were unused at year-end.

After the year-end, the Company completed \$10 million in new financing through the public issue of 500,000 9.75 per cent Cumulative Redeemable First Preferred Shares Series B. This new financing was in accordance with the Company's policy of maintaining a strong balance sheet and preserving future financing options. Given the uncertain outlook for Canadian capital markets, particularly with respect to common equity financing, the Company considers the timing appropriate to lower its debt/equity ratios through the issue of preferred shares. This course of action provides the Company with considerable future flexibility in financings of a debt or equity nature.

### Dividends

During 1976, the annual common share dividend rate was increased from 52 cents to 64 cents, an increase of 23 per cent. This was the fifth consecutive year in which the Company has increased the dividend rate.

Total dividends paid in 1976 were \$1,509,000, or 58 cents per common share, compared to \$1,306,000, or 50 cents per common share in 1975.

The new dividend rate is consistent with the Company's policy of maintaining a regular payment to shareholders based on the longer-term growth in earnings. Dividends are not determined by short term results but rather on longer-term trends. This policy provides the common shareholders with a measure of confidence in existing and prospective dividend yield.

The dividend policy followed by the Company conforms to the regulations of the Federal Anti-Inflation Act.

### Inventories

All distribution divisions entered 1976 with inventories at orderly levels consistent with anticipated sales. In spite of some rather substantial and unexpected swings in sales demand, all distribution units, including businesses purchased during the year, reported lower inventory positions at year-end in relation to sales than at the end of 1975. More important, inventories are satisfactorily balanced in relation to demand.

### Investment Program

During the year, the Company made a number of significant investments, both in new operating companies and in improvements to plant and equipment. The total capital commitment involved was \$16.3 million.

The Home Products Distribution Division acquired Walter Woods Limited and Guy Chenevert Limited for a combined purchase price of \$4.5 million in cash and notes. These companies represent important units in the development of a comprehensive chain of distribution centres capable of serving national as well as local markets.

One of the most important investments in recent years was completed with the purchase of TEK Bearing Company. Purchased for a total consideration of \$7.4 million in cash and notes, TEK provides a strong base for further development of Russel operations in U.S. markets.

Capital expenditures to upgrade and expand existing facilities totalled \$4.4 million in 1976. During the year, the Home Products Distribution Division completed construction of a major new distribution facility in Moncton. The extension to the central warehouse of the Power Transmission Distribution Division in Toronto became operational in 1976, doubling the storage and handling capacity at this location. Also in 1976, the Regina operations of the Metal Distribution Division moved into a new and expanded facility as part of a program to increase the Division's ability to service Western Canada.

Chart 5

### BALANCE SHEET DATA (Millions of dollars)

■ Total Assets  
■ Shareholders' Equity  
■ Long-Term Debt

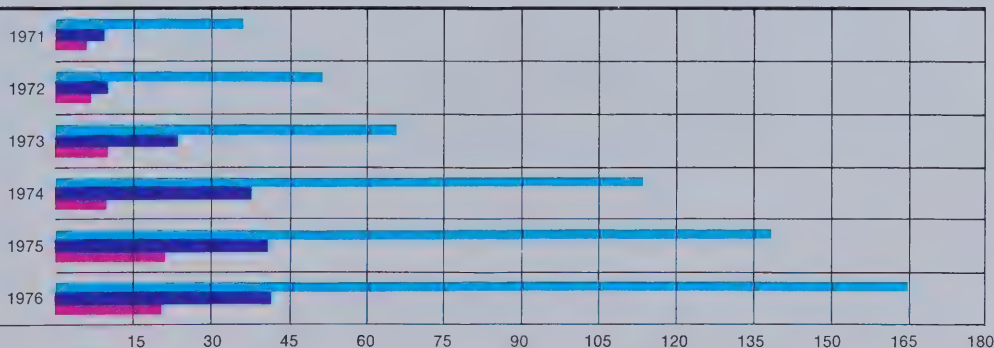
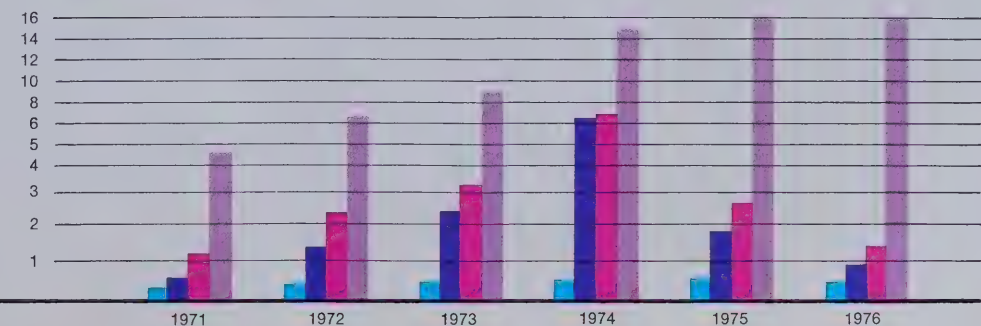


Chart 6

### COMMON STOCK DATA (Dollars)

■ Dividends Paid per Share  
■ Net Earnings per Share  
■ Cash Flow per Share  
■ Book Value per Share



# Metals Distribution Division

The Metals Distribution Division is Canada's largest national steel service organization operating 11 steel service centres across Canada.

The Division specializes in the supply of a wide range of carbon and stainless steel products used by the construction,



M. D. GLENN

manufacturing and processing industries for both production and maintenance purposes. In addition, all Division plants are equipped to provide first stage metal processing to customer specifications.

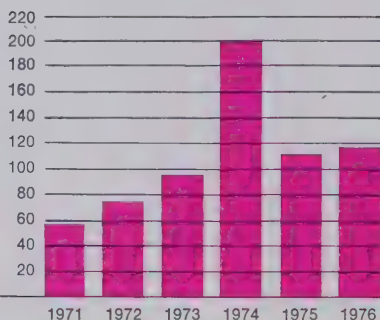
The division's 1976 sales of \$114 million were up from \$110 million in 1975. Excess steel production capacity and surplus inventories at all levels of the market exerted a downward pressure on prices and profit margins during the year.

Over the past several years, the Division has been engaged in a continuing investment program to expand and improve service capabilities in its various market areas. Since 1974, new and larger plants have been constructed in Edmonton, Saskatoon and Regina, and all plants have been re-equipped with modern metal processing machinery in response to the increasing need of customers for materials semi-processed to their production requirements.

As a result of this continuing and closely monitored investment program division sales have grown over the past 5 years at a rate of 14.6 per cent per year while division operating profits have grown at a rate of 13.8 per cent. The Division now has the resources and facilities to acquire a growing share of the Canadian market for its products.

The United States remains a major area of opportunity for the Division, and investigation continues for an appropriate means of entering this market.

## METALS DISTRIBUTION DIVISION Sales Summary (Millions of dollars)



Operating Highlights	1976	1971	5 year
			Compound Growth Rate
Sales (\$)	114,054,000	57,770,000	14.57%
Operating Profit* (\$)	4,626,000	2,428,000	13.76%
Operating Profit to Sales (%)	4.0%	4.2%	—
Per Cent of Corporate Total			
Sales	39.4	86.0	—
Operating Profit	64.0	100.4	—

\*Earnings before income tax and corporate services expense.

# Home Products Distribution Division

The Home Products Distribution Division is active in five main product groups: hardware; building materials and supplies; plumbing, heating and air conditioning equipment and supplies; electrical supplies; and sporting goods and leisure products.

Home Products is a rapidly expanding, integrated distribution system capable of supplying the professional buyer of industrial and construction materials and products, the independent retail merchants and the national mass merchandiser. In addition, the Division operates company-owned retail hardware and home centre outlets. A further area of activity for the Division is the supply of valving and telemetering equipment for the nuclear power and petro-chemical industries.



G. T. URQUHART

In 1976 the Division expanded its operations in the Ottawa/Hull area through the purchase of the business and assets of Guy Chenevert Limited, a specialist distributor of heating and air conditioning products. Chenevert's marketing and administrative operations complement existing Division activities in this market area.

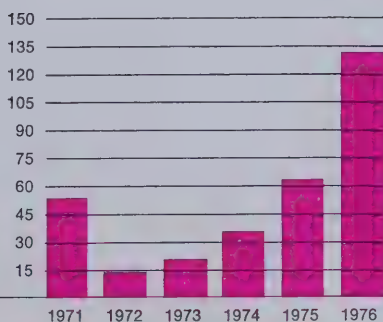
An increasingly important avenue of sales for this Division is through franchised dealers. The franchised merchant receives assistance in marketing, inventory management, administrative and accounting programs and buys his merchandise from the franchise holder. Through wholly-owned subsidiaries, the Home Products Distribution Division is the exclusive "Pro" hardware franchise holder for a number of provinces and extended its activities in this area in 1976 with the acquisition of Walter Woods Limited, a wholesale supplier of hardware and related products based in Western Canada.

The Division's sales in 1976 were \$132 million, an increase of 114 per cent over the \$62 million recorded in 1975. This reflects the impact of investment in new operating companies over the past two years. Earnings for the year were adversely affected by the prolonged strike in the Quebec construction industry. Since its formation in 1971, operating profits through 1976 have grown at a rate of 25 per cent per year.

Earnings from this division should be strengthened by the move in December 1976 of the wholesale activities in Moncton from four largely outdated buildings to a centralized modern distribution facility, equipped with the latest storage and handling equipment. This is already showing cost savings and improvements in customer service. The full benefit of this move will appear in 1978 and beyond.

Another element in future earnings outlook is the improvement expected in the new wholesale operation in Boucherville, Quebec, which has not as yet reached its full potential.

## HOME PRODUCTS DISTRIBUTION DIVISION Sales Summary (Millions of dollars)



Operating Highlights	4 year Compound Growth Rate		
	1976	1972	
Sales (\$)	131,689,000	15,540,000	70.62%
Operating Profit* (\$)	2,287,000	933,000	25.13%
Operating Profit to Sales (%)	1.7	6.0	—
Per cent of Corporate Total			
Sales	45.5	16.0	—
Operating Profit	31.7	18.6	—

\*Earnings before income tax and corporate services expense.

# Power Transmission Distribution Division

The Power Transmission Distribution Division is the foremost Canadian wholesale supplier of a wide range of industrial bearings, mechanical, electrical, hydraulic and pneumatic power transmission components and related lubricants and accessories.

During 1976, the Division expanded its operations internationally with the purchase of the TEK Bearing Company of Stratford, Connecticut. Through the combined facilities of TEK in the United States and Canadian Bearings Co. Limited

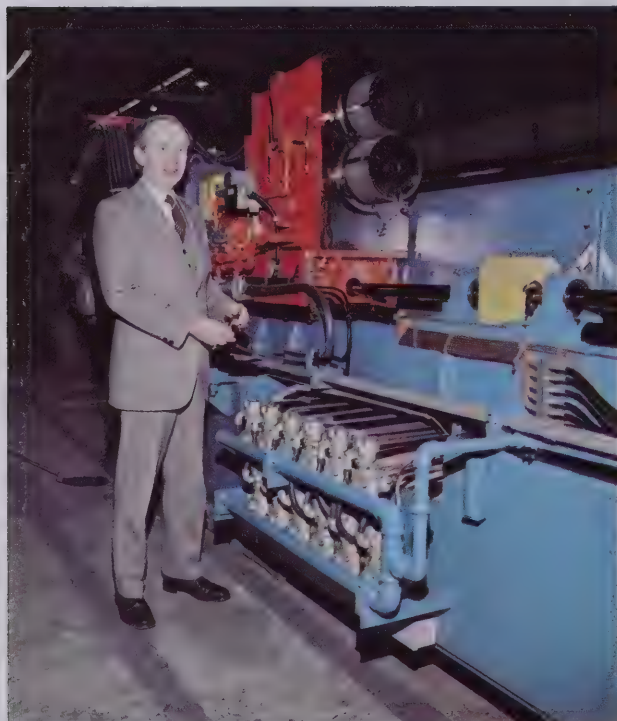
in Canada, the Division now operates a network of 35 sales and service branches in Ontario, Quebec, New England and the North-eastern United States. In addition, the Division maintains four regional warehouses providing centralized inventory services in major market areas.

The Power Transmission Distribution Division had 1976 sales of \$33 million, compared to \$14 million in 1975. For the most part, this reflects the added sales contributed by TEK which are included in Division results from April 1, 1976.

Since 1971 division sales have shown an average growth rate of 37 per cent and division operating profits have grown at a rate of 47 per cent per year.

Reduced industrial activity in Canada throughout 1976 resulted in a slowdown in demand for the Division's products. As a consequence, product orders were generally for smaller quantities as customer's requirements were cut back. Because of the higher handling and selling costs associated with this pattern of activity, profit margins were below 1975.

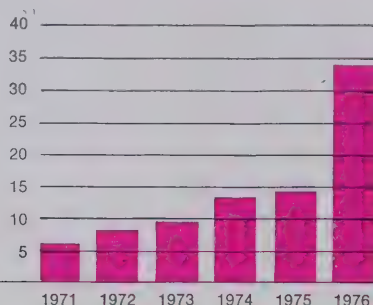
Early in the year, the Division began operations in a new branch at Jonqui re, Quebec, the location of the large industrial complex centred around the Alcan Aluminum plant at Arvida. This is the third new branch opened in the past two years in the Division's expansion into key markets in Quebec.



J. B. ADAMS

## POWER TRANSMISSION DISTRIBUTION DIVISION

Sales Summary  
(Millions of dollars)



Operating Highlights	1976	1971	5 year
			Compound Growth Rate
Sales (\$)	33,090,000	6,706,000	37.64%
Operating Profit* (\$)	1,622,000	236,000	47.04%
Operating Profit to Sales (%)	4.9	3.5	—
Per cent of Corporate Total			
Sales	11.4	10.0	—
Operating Profit	22.5	9.8	—

\*Earnings before income tax and corporate services expense.

# Engineering and Manufacturing Division

The Engineering and Manufacturing Division is engaged in the design and manufacture of equipment for the telecom-



ANDRE VARGA

munications and wire and cable processing industries. The Division's principal strength is its capability for developing improved engineering design and building machinery offering greater productivity.

The most important influence on the Division's performance during 1976 was an unprecedented decline of some 30 per cent in the normal level of shipments of electrical wire and cable in the United States, resulting in a deferral by producers of capital expenditures for new and replacement equipment. Reflecting this poor market demand, the Division's sales for the year of \$10 million were down 29 per cent from the \$14 million recorded in 1975.

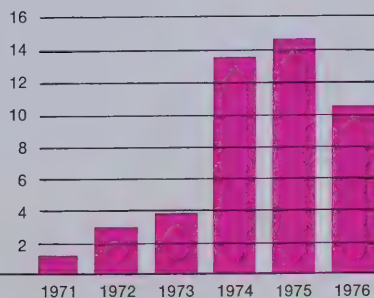
Due in part to the overhead of surplus plant capacity in the United States and operating difficulties encountered in Brazil, the Division recorded a net operating loss in 1976. A further factor in the deficit position was the abnormally high cost of completing a new product development project, designed to broaden the Division's marketing capability beyond its traditional customers. This completely new line of equipment for producing high tensile wire rope has now been fully tested and the first units sold and installed. It will be offered in markets not related to the electrical wire and cable industry and should have a stabilizing effect on the Division's business.

In light of the disappointing earnings results, action has now been taken to establish profitable, ongoing operations within the Division. This entails consolidating the operations of subsidiaries in the United States at one plant location, terminating the manufacturing activities in Brazil, and placing constraints on further product development projects.

These measures are designed to remove the principal causes of the 1976 loss from the Division's cost structure and should facilitate an early return to acceptable profit results.

## ENGINEERING AND MANUFACTURING DIVISION

Sales Summary  
(Millions of dollars)



Operating Highlights	1976	5 year Compound	
		1971	Growth Rate
Sales (\$)	10,331,000	2,874,000	29.16%
Operating Profit* (\$)	(1,313,000)	(246,000)	—
Per cent of Corporate Total			
Sales	3.7	4.0	—
Operating Profit	(18.2)	(10.2)	—

\*Earnings before income tax and corporate services expense.

# Consolidated Financial Information

## Ten Year Summary

For Canadian capital gains tax purposes, the Valuation Day value of Hugh Russel Limited shares on December 22, 1971 as established by the Department of National Revenue, was \$4.50.

### Operating Results (thousands)

	1976	1975
Net Sales . . . . .	\$289,164	\$199,298
Earnings before deducting depreciation, interest on long term debt, minority interest and income taxes . . . . .	\$ 9,569	\$ 13,418
Depreciation . . . . .	\$ 1,835	\$ 1,531
Interest on long term debt . . . . .	\$ 2,785	\$ 1,889
Income taxes . . . . .	\$ 2,587	\$ 5,228
Minority interest . . . . .	—	—
Amortization of premiums on acquisition . . . . .	\$ 75	\$ 16
Net earnings <sup>(1)</sup> . . . . .	\$ 2,287	\$ 4,754

### Operating Statistics<sup>(1)</sup>

% Net earnings to net sales . . . . .	0.8%	2.4%
% Net earnings to average common shareholders' equity . . . . .	5.5%	12.1%
% Net earnings to average capital employed . . . . .	2.7%	7.8%

### Per Share of Common Stock<sup>(1)</sup>

(Adjusted to reflect stock splits)		
Based on average common shares outstanding (thousands) . . . . .	2,601	2,574
Net earnings (after preferred dividends) . . . . .	\$ 0.88	\$ 1.84
Cash flow . . . . .	\$ 1.35	\$ 2.61
Book value . . . . .	\$ 16.36	\$ 15.92
Market price — High . . . . .	\$ 13.00	\$ 15.13
Market price — Low . . . . .	\$ 8.25	\$ 9.75
Net earnings — Fully diluted . . . . .	\$ 0.88	\$ 1.83

### Financial Ratios and Other Statistics

Current assets/current liabilities (ratio) . . . . .	1.3:1	1.6:1
Shareholders' equity/long term debt (ratio) . . . . .	2.0:1	1.9:1
Total assets/long term debt (ratio) . . . . .	7.8:1	6.2:1
Income available for long term debt interest/long term debt interest . . . . .	2.8:1	6.3:1
Sales/capital employed (ratio) . . . . .	4.2:1	2.9:1
Current assets/total assets (ratio) . . . . .	.77:1	.76:1
Additions to facilities (thousands) . . . . .	\$ 4,331	\$ 2,107
Total dividends paid (thousands) . . . . .	\$ 1,509	\$ 1,306
Number of common shareholders . . . . .	2,372	2,481
Number of shares traded (thousands) . . . . .	440	428

### Balance Sheet Data (thousands)

Current assets . . . . .	\$126,300	\$104,680
Current liabilities . . . . .	\$ 95,282	\$ 67,733
Working capital . . . . .	\$ 31,018	\$ 36,947
Net fixed assets . . . . .	\$ 25,078	\$ 20,330
Long term debt . . . . .	\$ 21,063	\$ 21,738
Shareholders' equity . . . . .	\$ 42,062	\$ 41,257
Capital employed . . . . .	\$ 69,642	\$ 69,689
Total assets . . . . .	\$164,924	\$137,422

(1) In 1972 based on earnings before extraordinary items



1974	1973	1972	1971	1970	1969	1968	1967
\$262,800	\$130,391	\$ 99,106	\$ 67,350	\$ 61,113	\$ 49,819	\$ 38,375	\$ 32,473
\$ 34,198	\$ 13,887	\$ 5,838	\$ 2,967	\$ 2,670	\$ 2,413	\$ 1,435	\$ 1,210
\$ 1,228	\$ 864	\$ 738	\$ 604	\$ 513	\$ 310	\$ 287	\$ 245
\$ 1,026	\$ 986	\$ 526	\$ 359	\$ 179	\$ 148	\$ 150	\$ 153
\$ 16,281	\$ 5,969	\$ 2,182	\$ 1,006	\$ 1,052	\$ 1,072	\$ 516	\$ 371
—	—	—	\$ 34	\$ 42	\$ 40	\$ 40	\$ 6
—	—	—	—	—	—	—	—
\$ 15,663	\$ 6,068	\$ 2,392	\$ 964	\$ 884	\$ 843	\$ 442	\$ 435
6.0%	4.7%	2.4%	1.4%	1.4%	1.7%	1.1%	1.3%
52.5%	32.6%	29.0%	13.2%	12.9%	15.1%	9.6%	10.0%
35.5%	18.3%	12.2%	5.9%	6.9%	9.1%	5.9%	6.1%
2,502	2,108	1,326	1,266	1,254	1,254	1,244	1,232
\$ 6.25	\$ 2.82	\$ 1.66	\$ 0.59	\$ 0.54	\$ 0.58	\$ 0.36	\$ 0.36
\$ 6.76	\$ 3.24	\$ 2.36	\$ 1.13	\$ 0.98	\$ 0.77	\$ 0.54	\$ 0.64
\$ 14.79	\$ 9.29	\$ 6.24	\$ 4.70	\$ 4.31	\$ 3.98	\$ 3.73	\$ 3.68
\$ 21.00	\$ 15.50	\$ 13.00	\$ 4.94	\$ 5.56	\$ 5.50	\$ 4.44	\$ 4.06
\$ 11.88	\$ 10.00	\$ 3.88	\$ 3.25	\$ 3.75	\$ 3.94	\$ 3.00	\$ 3.13
\$ 6.05	\$ 2.35	\$ 1.17	\$ 0.49	\$ 0.46	\$ 0.53	\$ 0.36	\$ 0.36
1.5:1	1.8:1	1.5:1	1.5:1	1.3:1	1.5:1	1.3:1	1.4:1
3.2:1	2.0:1	1.8:1	1.8:1	3.4:1	3.6:1	1.9:1	1.9:1
9.6:1	5.3:1	7.3:1	6.7:1	12.6:1	9.6:1	9.2:1	7.4:1
32.1:1	13.2:1	9.7:1	6.5:1	11.8:1	13.9:1	7.4:1	6.3:1
5.0:1	3.7:1	4.7:1	3.7:1	4.1:1	4.5:1	5.1:1	4.3:1
.80:1	.78:1	.80:1	.76:1	.76:1	.78:1	.82:1	.79:1
\$ 3,539	\$ 1,094	\$ 1,177	\$ 825	\$ 1,230	\$ 437	\$ 272	\$ 392
\$ 1,036	\$ 794	\$ 505	\$ 468	\$ 465	\$ 365	\$ 246	\$ 243
2,209	1,975	1,204	837	798	760	611	643
976	1,024	1,083	184	354	392	250	101
\$ 91,997	\$ 50,096	\$ 39,480	\$ 27,524	\$ 25,728	\$ 17,659	\$ 17,816	\$ 14,091
\$ 62,958	\$ 28,545	\$ 28,293	\$ 18,339	\$ 19,271	\$ 11,523	\$ 14,133	\$ 10,385
\$ 29,039	\$ 21,551	\$ 11,187	\$ 9,185	\$ 6,457	\$ 6,136	\$ 3,683	\$ 3,706
\$ 12,774	\$ 9,869	\$ 8,635	\$ 6,875	\$ 6,637	\$ 3,584	\$ 3,244	\$ 3,260
\$ 11,665	\$ 11,170	\$ 6,515	\$ 5,282	\$ 2,541	\$ 2,292	\$ 2,349	\$ 2,399
\$ 37,790	\$ 23,027	\$ 11,736	\$ 9,268	\$ 8,706	\$ 8,287	\$ 4,640	\$ 4,525
\$ 52,513	\$ 35,698	\$ 21,205	\$ 18,087	\$ 14,780	\$ 10,993	\$ 7,480	\$ 7,480
\$115,471	\$ 64,243	\$ 49,498	\$ 36,426	\$ 34,051	\$ 22,516	\$ 21,613	\$ 17,865



# Consolidated Statement of Financial Position

AS AT DECEMBER 31, 1976  
(with comparative figures as at December 31, 1975)

	1976	1975
	<i>(thousands of dollars)</i>	
Current assets:		
Accounts receivable . . . . .	\$ 49,625	\$ 40,049
Inventories . . . . .	71,460	60,672
Prepaid expenses and other assets . . . . .	3,694	3,748
Income taxes recoverable . . . . .	1,521	211
	<b>126,300</b>	<b>104,680</b>
Current liabilities:		
Bank indebtedness (note 2) . . . . .	64,645	36,160
Accounts payable and accrued charges . . . . .	27,478	28,597
Long term debt due within one year (note 6) . . . . .	627	434
Contractual obligations due within one year (note 4) . . . . .	2,532	2,542
	<b>95,282</b>	<b>67,733</b>
Working capital . . . . .	<b>31,018</b>	<b>36,947</b>
Other assets:		
Fixed assets (note 3) . . . . .	25,078	20,330
Premiums on acquisitions (notes 4 and 5) . . . . .	12,571	11,513
Long term investments and advances (note 9) . . . . .	975	899
	<b>38,624</b>	<b>32,742</b>
Capital employed . . . . .	<b>\$ 69,642</b>	<b>\$ 69,689</b>
Represented by:		
Contractual obligations (note 4) . . . . .	\$ 5,994	\$ 5,551
Long term debt (note 6) . . . . .	21,063	21,738
Deferred income taxes . . . . .	523	1,143
	<b>27,580</b>	<b>28,432</b>
Shareholders' equity —		
Capital stock (note 7) . . . . .	10,135	10,108
Contributed surplus . . . . .	79	79
Retained earnings . . . . .	31,848	31,070
	<b>42,062</b>	<b>41,257</b>
Capital employed . . . . .	<b>\$ 69,642</b>	<b>\$ 69,689</b>

(See accompanying notes)

On behalf of the Board:

A. D. RUSSEL, Director

J. P. FOSTER, Director



# Consolidated Statement of Earnings and Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1976  
(with comparative figures for 1975)

	1976		1975	
	(thousands of dollars)			
		%		%
Net sales — metals . . . . .	\$114,054	39.4	\$109,645	55.0
— power transmission . . . . .	33,090	11.4	13,757	6.9
— home products . . . . .	131,689	45.5	61,564	30.9
— engineering and manufacturing .	10,331	3.7	14,332	7.2
Total sales . . . . .	289,164	100.0	199,298	100.0
Cost of sales . . . . .	228,059	78.9	153,986	77.3
Gross profit . . . . .	61,105	21.1	45,312	22.7
Operating expenses other than depreciation and interest . . . . .	45,977	15.9	29,813	15.0
Earnings from operations before deducting the following: . . . . .	15,128	5.2	15,499	7.7
Depreciation . . . . .	1,835	.6	1,531	.7
Interest on short term borrowings . . . .	5,559	1.9	2,081	1.0
Interest on long term debt . . . . .	2,785	1.0	1,889	1.0
Earnings before income taxes and amor- tization of premiums on acquisitions . . .	4,949	1.7	9,998	5.0
Income taxes . . . . .	2,587	.9	5,228	2.6
Amortization of premiums on acquisitions .	75	—	16	—
Net earnings for the year . . . . .	2,287	.8	4,754	2.4
Retained earnings, beginning of year . . .	31,070		27,622	
	33,357		32,376	
Deduct:				
Dividends on common shares (including dividends on Class "B" shares and special tax thereon) . . . . .	1,509		1,301	
Dividends on preferred shares . . . . .	—		5	
Retained earnings, end of year . . . . .	\$ 31,848		\$ 31,070	
Earnings per common share . . . . .	\$ .88		\$ 1.84	
Fully diluted earnings per common share .	\$ .88		\$ 1.83	

(See accompanying notes)



# Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1976  
(with comparative figures for 1975)

	1976	1975
	<i>(thousands of dollars)</i>	
Working capital was obtained from:		
Operations —		
Net earnings for the year . . . . .	\$ 2,287	\$ 4,754
Items not requiring working capital:		
Depreciation . . . . .	1,835	1,531
Deferred income taxes . . . . .	(684)	462
Amortization of premiums on acquisitions . . . . .	75	16
	<hr/> 3,513	<hr/> 6,763
Common shares issued under stock option and employee share purchase plans . . . . .	27	21
Sales of fixed assets . . . . .	294	52
Additional contractual obligations . . . . .	2,534	5,383
Issue of debentures . . . . .	—	10,000
Other long term debt issued . . . . .	78	402
Reduction in investments . . . . .	461	286
Other . . . . .	27	—
	<hr/> 6,934	<hr/> 22,907
Working capital was applied to:		
Purchase subsidiary companies and businesses . . . . .	7,058	15,775
Less working capital acquired . . . . .	4,203	7,241
	<hr/> 2,855	<hr/> 8,534
Consisting of —		
Fixed assets . . . . .	\$ 2,546	
Premiums on acquisitions . . . . .	1,350	
Other assets . . . . .	347	
Deferred income taxes . . . . .	(64)	
Long term debt . . . . .	(1,078)	
Contractual obligations . . . . .	(246)	
	<hr/> \$ 2,855	
Reduce contractual obligations . . . . .	2,337	2,522
Purchase fixed assets . . . . .	4,331	2,107
Pay dividends . . . . .	1,509	1,306
Reduce long term debt . . . . .	1,831	528
Other . . . . .	—	2
	<hr/> 12,863	<hr/> 14,999
Increase (decrease) in working capital . . . . .	(5,929)	7,908
Working capital, beginning of year . . . . .	36,947	29,039
Working capital, end of year . . . . .	<hr/> \$ 31,018	<hr/> \$ 36,947

(See accompanying notes)

# Notes to Consolidated Financial Statements

December 31, 1976

## 1. Summary of accounting policies

### (a) Basis of consolidation —

The consolidated financial statements include the accounts of the Company and all subsidiaries and include the earnings of subsidiaries since acquisition.

### (b) Depreciation —

The Company and its subsidiaries provide for depreciation substantially on a straight-line basis, except for the Home Products Distribution Division which uses the reducing balance method. The rates of depreciation are:

	Home Products Distribution Division	Other
Buildings . . . . .	5% and 10%	2½ % to 10%
Machinery and equipment . . . . .	20%	10%

### (c) Inventories —

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in-first-out or average cost basis for all subsidiaries except for one United States subsidiary which computes cost on the last-in-first-out basis.

### (d) Foreign currencies —

The statements of companies outside Canada have been translated into Canadian dollars substantially as follows: current assets (except inventories), current liabilities and long term debt at exchange rates prevailing at the end of the year. Inventories, investments, fixed assets and depreciation provisions on the basis of rates prevailing at dates of acquisition; income and expenses (other than depreciation provisions) at average rates for the year. Gains or losses resulting from these translations were not material.

### (e) Premiums on acquisitions —

Premiums on acquisitions made prior to April, 1974 are carried in the accounts at cost, without amortization, unless the related business is sold or suffers a permanent decline in value. Premiums on subsequent acquisitions are being amortized by the straight-line method over forty years.

### (f) Investments —

The investment in a joint venture was accounted for on the equity basis until 1976. This joint venture (Springhill Homes & Supplies Limited) became a subsidiary in 1976 and accordingly has been consolidated from June 1, 1976.

## 2. Bank indebtedness

Accounts receivable and inventories have been pledged against the bank indebtedness.

## 3. Fixed assets

3. Fixed assets	1976			1975
	(thousands of dollars)			
	Cost	Accumulated depreciation	Net	Net
Land . . . . .	\$ 4,271	\$ —	\$ 4,271	\$ 3,053
Buildings . . . . .	18,651	3,378	15,273	11,815
Machinery and equipment . . . . .	12,822	7,288	5,534	5,462
	\$ 35,744	\$ 10,666	\$ 25,078	\$ 20,330

## 4. Commitments and contingencies

(a) Under the terms of the agreements whereby the Company acquired certain subsidiaries, the Company is committed to pay for the shares purchased in annual instalments. In some cases, the final purchase price will be determined by the earnings of the businesses acquired during the five years subsequent to acquisition. It is the Company's policy not to record such liabilities in the accounts until the earnings for each period have been determined. Full provision has been made for these liabilities based on earnings to the end of 1976. Based on forecast earnings, it is estimated that additional payments will amount to approximately \$3,200,000.

### (b) Payments are required on contractual obligations as follows:

1977 . . . . .	\$ 2,532,000
1978 . . . . .	2,479,000
1979 . . . . .	1,327,000
1980 . . . . .	1,577,000
1981 and thereafter . . . . .	611,000

[illegible]

During 1976, the Company and its subsidiaries acquired Walter Woods Limited, TEK Bearings Group, the additional interest in Springhill Homes & Supplies Limited, and Guy Chenevert Limited. The net assets obtained in these acquisitions, which were accounted for as purchases, are as follows:

## 6. Long term debt

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Other long term debt consists mainly of mortgages with interest rates varying from 5% to 10¾%.

Amounts required to repay principal in the years to December 31, 1981 are:

1977	\$ 627,000
1978	693,000
1979	821,000
1980	836,000
1981	1,155,000

The Series A, Series B, Series C and Series D debentures are secured by a first mortgage on the shares and fixed assets of Russelsteel Ltd. and by a first floating charge on the remaining assets of the Company and Russelsteel Ltd.

The trust deed under which the debentures were issued calls for progressive annual sinking fund payments from December 31, 1976 to retire \$482,000 Series A debentures by 1984, \$1,950,000 Series B by 1990, \$3,450,000 Series C by 1992 and \$8,471,000 Series D by 1994. Under certain conditions the terms of the trust deed prohibit the Company from paying dividends other than cumulative preferred dividends or stock dividends. In addition, under the terms of the supplemental trust deeds relating to Series B, C and D debentures, certain general conditions are imposed. These requirements have been met.

## 7. Capital stock

### (a) Preferred shares —

#### (i) Authorized:

At December 31, 1975 the authorized preferred shares of the Company consisted of 489,975 First Preferred Shares, \$20 par value, of which 164,975 were designated as 6½% Cumulative Redeemable Convertible First Preferred Shares Series A. These shares were redeemable by the Company at \$24 and were convertible at the holder's option into Class "A" or Class "B" common shares on the basis of four common shares for each preferred share.

On December 6, 1976, the Company obtained Supplementary Letters Patent cancelling the 164,975 6½% Cumulative Redeemable Convertible First Preferred Shares Series A, and increasing the capital of the Company by the creation of 1,425,000 First Preferred Shares with a par value of \$20 each. On January 18, 1977 the Company obtained Supplementary Letters Patent designating 500,000 of the 1,750,000 First Preferred Shares as 9¾% Cumulative Redeemable First Preferred Shares Series B, so that the authorized preferred shares of the Company from January 18, 1977 consist of 1,750,000 First Preferred Shares with a par value of \$20 each, issuable in series of which 500,000 have been designated as above.

#### (ii) Issued and outstanding:

At December 31, 1976 . . . . . NIL

### (b) Common shares —

#### (i) Authorized:

The authorized common shares of the Company consist of 8,000,000 Class "A" shares without nominal or par value, and 8,000,000 Class "B" shares without nominal or par value. These shares are inter-convertible on a share-for-share basis at the holder's option.

#### (ii) Issued and outstanding:

	Number of shares	
	Class "A"	Class "B"
At December 31, 1975 . . . . .	1,874,622	717,360
Add:		
Issued to employees under the provisions of the employees' share purchase plan for cash of \$27,048 . . . . .	10,000	—
Issued upon conversion of Class "A" to Class "B" and vice versa . . . . .	181,706	154,273
Minus conversions of Class "B" to Class "A" and vice versa . . . . .	(154,273)	(181,706)
At December 31, 1976 . . . . .	1,912,055	689,927

*(c) Shares reserved —*

Authorized unissued common shares are reserved for possible future issue as follows:

	Number of shares	
	Class "A"	Class "B"
For options granted to employees . . . . .	1,900	—
For additional options . . . . .	2,884	—
For the employees' share purchase plan . . . . .	17,866	—
Total shares reserved . . . . .	22,650	—

In addition, the Company is required to maintain sufficient unissued Class "A" and Class "B" common shares to satisfy the conversion privileges of the holders of the Class "B" and Class "A" common shares respectively.

**8. Stock options**

Options on 1,900 shares have been granted to employees to purchase Class "A" shares at \$10.80 per share. These options are exercisable in instalments up to 1983.

**9. Senior executive share purchase plan**

The Company is authorized to provide loans to a trustee for the purchase of shares of the Company for the benefit of senior officers (who may be directors) specified by the Board of Directors. At December 31, 1976, the Company had advanced a total of \$622,000 to the trustee pursuant to this plan.

**10. Remuneration of directors and officers**

The Company has nine directors and seven officers, five of whom are directors. For the year ended December 31, 1976, the following amounts are charged in the consolidated statement of earnings for direct remuneration and retirement benefits:

Directors, as directors . . . . .	\$ 5,000
Officers, as officers . . . . .	\$332,000

**11. Anti-Inflation Programme**

Effective October 14, 1975, the federal government passed the Anti-Inflation Act and subsequently issued regulations which are presently scheduled to be in force until December 31, 1978. Under the legislation the Company and its subsidiaries are subject to mandatory compliance with controls on prices, profits, employee compensation and shareholder dividends. Management believes that the Company and its subsidiaries are in compliance with the regulations which have been issued. Dividends to the Company's common shareholders during the year ending October 13, 1977 may not exceed \$3,916,000; based on the number of common shares outstanding at December 31, 1976, this amounts to \$1.57 per common share. The current annual dividend rate is \$0.64 per share.

**12. Subsequent events**

(a) The Company has obtained the Supplementary Letters Patent referred to in note 7(a)(i) above.

(b) By an agreement dated January 18, 1977 the Company has sold to an underwriter \$10,000,000 9¾% Cumulative Redeemable First Preferred Shares Series B for a consideration of \$9,525,000 after deducting estimated expenses of issue.

# Auditors' Report

*Clarkson, Gordon & Co.*

*Chartered Accountants*

To the Shareholders of  
Hugh Russel Limited:

We have examined the consolidated statement of financial position of Hugh Russel Limited as at December 31, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. For Hugh Russel Limited and those subsidiaries of which we are the auditors, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of the other auditors for purposes of consolidation.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Clarkson, Gordon & Co.*

Chartered Accountants

Toronto, Canada,  
February 14, 1977.

# Corporate Directory

## Hugh Russel Limited

Head Office:  
8 King Street East  
Toronto, Ontario M5C 1B5

## Registrar and Transfer Agent

The Royal Trust Company

## General Counsel

J. D. Reilly, Q.C.

## Auditors

Clarkson, Gordon & Co.

## Stock Exchanges

Montreal and Toronto

## Board of Directors

1 A. D. Russel  
Toronto, Ontario  
Chairman of the Board, Hugh Russel Limited

2 J. P. Foster  
Toronto, Ontario  
President, Hugh Russel Limited

3 M. D. Glenn  
Montreal, Quebec  
President, Metals Distribution Division,  
Hugh Russel Limited

4 R. Hartog  
Perkinsfield, Ontario  
President, Waltec Enterprises Ltd.

5 K. D. Mooney  
Islington, Ontario  
President, Valley Camp Limited

0 J. D. Reilly, Q.C.  
Toronto, Ontario  
Partner, Hill, Friend & Reilly

7 G. D. Shearer, C.A.  
Toronto, Ontario  
Vice-President Finance, Russelsteel Ltd.

2 G. T. Urquhart  
Moncton, New Brunswick  
President, Home Products Distribution Division,  
Hugh Russel Limited

9 J. W. Vingoe  
Islington, Ontario  
Senior Vice-President,  
Massey-Ferguson Industries Ltd.

## Corporate Officers

A. D. Russel  
Chairman and Chief Executive Officer

J. P. Foster  
President

M. D. Glenn  
Vice-President

J. M. O'Sullivan  
Vice-President

J. D. Reilly, Q.C.  
Secretary

J. S. Smith, C.G.A.  
Treasurer

G. T. Urquhart  
Vice-President

